

EVART PUBLIC LIBRARY

EVART, MICHIGAN

YEAR ENDED JUNE 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

EVART PUBLIC LIBRARY
EVART, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	i
Management's Discussion and Analysis	ii-v
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - General Fund	3
Reconciliation of Balance Sheet of General Fund to Net Assets	4
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	5-6
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance of the General Fund to the Statement of Activities	7
Notes to Financial Statements	8-15
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	16

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

August 29, 2008

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Evart Public Library
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Evart Public Library, Evart, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Evart Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Evart Public Library as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages ii through v and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Evert Public Library is located in Osceola County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evert Public Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as long-term debt of the Library.

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30:

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 84,836	\$ 87,247
Non Current Assets		
Capital Assets	924,649	903,130
Less Accumulated Depreciation	(333,446)	(282,891)
Total Non Current Assets	<u>591,203</u>	<u>620,239</u>
Total Assets	<u><u>\$ 676,039</u></u>	<u><u>\$ 707,486</u></u>
Liabilities		
Current Liabilities	\$ 2,195	\$ 9,978
Non Current Liabilities	<u>0</u>	<u>14,129</u>
Total Liabilities	<u>2,195</u>	<u>24,107</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	591,203	598,126
Unrestricted	<u>82,641</u>	<u>85,253</u>
Total Net Assets	<u>673,844</u>	<u>683,379</u>
Total Liabilities and Net Assets	<u><u>\$ 676,039</u></u>	<u><u>\$ 707,486</u></u>

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

D. Analysis of Financial Position

During the fiscal year ended June 30, 2008, the Library's net assets decreased by \$9,535. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2008, \$50,555 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2008, \$21,519 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$29,036 for the fiscal year ended June 30, 2008.

E. Results of Operations

For the fiscal years ended June 30, 2008 and 2007, the results of operations were:

	2008		2007	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$ 59,992	39.32%	\$ 58,511	40.15%
Investment Earnings	3,860	2.53%	464	0.32%
State Sources	67,513	44.24%	79,227	54.36%
Other	19,925	13.06%	6,303	4.33%
Total General Revenues	151,290	99.15%	144,505	99.16%
Program Revenues				
Operating Grants	1,294	0.85%	1,225	0.84%
Total Revenues	<u>\$152,584</u>	<u>100.00%</u>	<u>\$145,730</u>	<u>100.00%</u>

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

	2008		2007	
	Amount	% of Total	Amount	% of Total
Expenses				
Recreation and Culture	\$ 161,490	99.61%	\$ 159,996	98.52%
Interest on Long-term Debt	629	0.39%	2,404	1.48%
	<u>162,119</u>	<u>100.00%</u>	<u>162,400</u>	<u>100.00%</u>
Change in Net Assets	<u>\$ (9,535)</u>		<u>\$ (16,670)</u>	

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library receives property taxes for operations.

For the year ended June 30, 2008, the Library recognized \$59,992 of property tax revenue, an increase of 2.5% from 2007 fiscal year.

2. State Sources

The majority of the state sources are comprised of penal fines received from Clare and Osceola Counties. The Library collected \$62,510 in penal fines for the year ended June 30, 2008 and received state aid of \$5,003.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2008, the Library amended the general fund budget in February 2008. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 150,450	\$150,450	\$152,584	\$ 2,134
Total Expenditures	150,450	154,475	155,196	(721)

H. Capital Asset

1. Capital Assets

At June 30, 2008, the Library had \$924,649 in capital assets, including land, buildings, equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$50,555 bringing the accumulated depreciation to \$333,446 as of June 30, 2008.

I. Long-Term Debt

As of June 30, 2008, the Library loan was paid off. The Library did not borrow any additional money during this fiscal year. Total debt decreased from \$22,113 at June 30, 2007, to \$0 at June 30, 2008, a reduction of \$22,113. More information on the Library's long-term debt is available in the Notes to Financial Statements section of this document, on page 14.

J. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

K. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Evart Public Library, 104 N. Main Street, Evart, Michigan 49631.

EVART PUBLIC LIBRARY
EVART, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 33,420
Taxes Receivable	359
Due from Other Governmental Units	34,072
Investments	<u>16,985</u>
Total Current Assets	<u>84,836</u>

NON CURRENT ASSETS

Capital Assets	924,649
Less Accumulated Depreciation	<u>(333,446)</u>
Total Non Current Assets	<u>591,203</u>
TOTAL ASSETS	<u><u>\$ 676,039</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 937
Due to Other Governmental Units	<u>1,258</u>
Total Current Liabilities	<u>2,195</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	591,203
Unrestricted	<u>82,641</u>
Total Net Assets	<u>673,844</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 676,039</u></u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES
			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 161,490	\$ 1,294	\$ (160,196)
Interest on Long-term Debt	629	0	(629)
Total Governmental Activities	<u>\$ 162,119</u>	<u>\$ 1,294</u>	<u>(160,825)</u>
<u>GENERAL REVENUES</u>			
Property Taxes -General Purposes			59,992
Investment Earnings			3,860
State Sources			67,513
Contributions and Donations			16,162
Other			<u>3,763</u>
Total General Revenues			<u>151,290</u>
Change in Net Assets			(9,535)
<u>NET ASSETS</u> - Beginning of Year			<u>683,379</u>
<u>NET ASSETS</u> - End of Year			<u>\$ 673,844</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND
BALANCE SHEET

JUNE 30, 2008

ASSETS

Cash	\$ 33,420
Receivables	
Taxes	359
Due from Other Governmental Units	
Clare County	4,918
Osceola County	26,639
State of Michigan	2,515
Investments	<u>16,985</u>
 TOTAL ASSETS	 <u><u>\$ 84,836</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 937
Due to Other Governmental Units	
Mid Michigan Library League	<u>1,258</u>
Total Liabilities	<u>2,195</u>

FUND BALANCE

Unreserved	
Undesignated	<u>82,641</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 84,836</u></u>
------------------------------------	-------------------------

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2008

Total General Fund Balance		\$ 82,641
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	\$ 924,649	
Accumulated depreciation is	<u>(333,446)</u>	<u>591,203</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 673,844</u></u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local		
City of Evert		
Current Property Tax	\$ 41,000	\$ 36,982
Industrial Facilities Tax	0	1,094
Evert Township		
Current Property Tax	12,000	13,910
Osceola Township		
Current Property Tax	6,000	8,006
State Grants		
Library State Aid	7,000	5,003
Library Penal Fines		
Clare County	5,000	4,918
Osceola County	72,000	57,592
Contribution from Local Units		
Hartwick Township	300	300
Orient Township	300	400
Sylvan Township	750	750
Investment Earnings	350	3,860
Other Revenues		
Contributions and Donations from Private Sources	4,000	14,712
Charges for Services	1,000	1,294
Sale of Books	750	1,334
Adjustments to Prior Year Accounts	0	2,325
Miscellaneous	0	104
Total Revenues	150,450	152,584
<u>EXPENDITURES</u>		
Recreation and Culture		
Personal Services		
Librarian	32,050	31,726
Technician and Aides	21,025	22,865
Custodial	7,500	5,125
Treasurer	2,100	2,200
Museum Coordinator	4,300	4,300
Museum Assistant	1,500	1,500
Trustees	2,000	1,710
Fringe Benefits		
Social Security and Medicare	5,750	5,309

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>
Supplies		
Office Supplies	750	682
Operating Supplies	1,500	2,072
Magazines and Newspapers	1,200	1,367
Museum Supplies	1,800	1,849
Computer Supplies	3,500	3,157
Purchased Services		
Auditing and Bookkeeping	3,200	3,330
Insurance		
Liability	2,500	2,193
Bond	75	0
Worker's Compensation	800	788
Telephone	1,800	2,320
Travel and Education	45	15
Utilities		
Heat	6,000	5,548
Electricity	6,000	5,900
Sewer and Water	200	202
Repairs and Maintenance	3,900	2,973
Capital Outlay		
Books	20,000	13,337
Furniture and Equipment	500	6,000
Building Improvements	0	2,182
Miscellaneous Expense		
State Aid - Membership	3,500	2,501
Dues and Memberships	200	90
Miscellaneous	750	1,213
Debt Service		
Loan Interest Payments	0	629
Principal Payment	13,000	22,113
Contingency	7,030	0
Total Expenditures	<u>154,475</u>	<u>155,196</u>
Net Change in Fund Balance	(4,025)	(2,612)
<u>FUND BALANCE</u> - Beginning of Year	<u>85,253</u>	<u>85,253</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 81,228</u>	<u>\$ 82,641</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Net Change in Fund Balance General Fund	\$ (2,612)
---	------------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	\$ (50,555)	
Capital Outlay	<u>21,519</u>	(29,036)

Long-term debt principal payments are not expensed on the Statement of Activities, instead charged to the Line of Credit liability account.	<u>22,113</u>
---	---------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (9,535)</u></u>
---	--------------------------

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Evart Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Evart Public Library is a district library established under the provision of Act No. 164, Public Acts of 1955. The accounting policies of the Evart Public Library conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

The financial statements of the Evart Public Library include the accounts of all operations. The Library's major operation is to operate a public library in Evart, Michigan. The Library board consists of six members, two of whom are appointed by each of the City of Evart, Evart Township and Osceola Township. As such, the City of Evart, Evart Township and Osceola Township are all 1/3 owners of the Library.

In addition, there are no component units to be included in the Library's reporting entity as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

The Library's investment policy states that the Evart Public Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Equipment	10 years
Building Improvements	20 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund	\$ 154,475	155,196

These overages were funded by available fund balances and greater-than-anticipated revenues.

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits are all on deposit with Citizens Bank. The Library's investments consist of shares of Automatic Data Processing, Inc., Brokerage Services Group, and Chevron Corporation.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirements.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$0 of the Library's bank balance of \$50,477 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library's investments are categorized to give an indication of the level of risk assumed by the Library at year end. Category 1 includes investments that are insured or registered, or securities held by the Library or the Library's agent in the Library's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Library's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Library's name. At year end all of the Library's investments were uncategorized as to risk. The Library's investment in Automatic Data Processing, Inc., Brokerage Services Group, and Chevron Corporation is at fair market value.

Balance sheet classifications:

	Deposits	Investments	Total
Cash	\$ 33,420	\$ 0	\$ 33,420
Investments	0	16,985	16,985
	<u>\$ 33,420</u>	<u>\$ 16,985</u>	<u>\$ 50,405</u>

B. Due from Other Governments

Amounts due from other governments of \$34,072 are comprised of penal fines and state aid.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated				
Land	\$ 15,000	\$ 0	\$ 0	\$ 15,000
Capital assets, being depreciated				
Books	241,071	13,337	0	254,408
Building	90,000	0	0	90,000
Furniture and Equipment	28,989	6,000	0	34,989
Building Improvements	528,070	2,182	0	530,252
Total capital assets, being depreciated	888,130	21,519	0	909,649
Less accumulated depreciation for				
Books	143,089	19,936	0	163,025
Buildings	16,650	1,800	0	18,450
Furniture and Equipment	17,122	2,352	0	19,474
Building Improvements	106,030	26,467	0	132,497
Total accumulated depreciation	282,891	50,555	0	333,446
Total capital assets, being depreciated, net	605,239	(29,036)	0	576,203
Governmental activities capital assets, net	\$ 620,239	\$(29,036)	\$ 0	\$ 591,203

Depreciation for the fiscal year ended June 30, 2008, amounted to \$50,555.

D. Property Taxes

The Library receives revenue from a city millage on the July tax roll. The taxes are levied as of July 1 and are due upon receipt of the billing by the taxpayer. The actual due date is August 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The Library also receives taxes from two Townships; Osceola and Evart.

For the year ended June 30, 2008, the Library levied the following mills per \$1,000 of taxable valuation on the city residents.

PURPOSE	MILLS	
Operating	.9702/\$1,000	City
Operating	.0300/\$1,000	Townships

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

E. Long-Term Debt

The Library had a secured line of credit for \$100,000 to be used to complete a construction project to remodel the Library building. The remodeling is now complete and the line of credit was renewed July 3, 2006, as a business loan at a fixed interest rate of 8% requiring monthly payments of \$791 for five years. The balance was paid off during the current fiscal year.

A summary of the Long-Term Debt transactions for the Library for the year ended June 30, 2008, is as follows:

	<u>LOAN</u>
Long-Term Debt at July 1, 2007	\$ 14,129
New Liabilities	0
Liabilities Retired	(14,129)
Liabilities Classified as Current	<u>0</u>
Long-Term Debt at June 30, 2008	<u><u>\$ 0</u></u>

F. Retirement Benefits

Retirement benefits are provided to the librarian through contributions to individual retirement accounts after completing one year of service for the Library. Such contributions equal \$100 per month for the librarian. Individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which would be includible as part of the Library reporting entity. For the year ended June 30, 2008, \$1,200 was contributed to the individual retirement account of the librarian.

G. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

H. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as mastodon bones collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
Local Sources	\$ 66,450	66,450	85,071	\$ 18,621
State Sources	84,000	84,000	67,513	(16,487)
Total Revenues	150,450	150,450	152,584	2,134
<u>EXPENDITURES</u>				
Recreation and Culture				
Personal Services	70,150	70,475	69,426	1,049
Fringe Benefits	5,750	5,750	5,309	441
Purchased Services	22,420	24,520	23,269	1,251
Supplies	7,150	8,750	9,127	(377)
Capital Outlay	20,500	20,500	21,519	(1,019)
Miscellaneous	4,450	4,450	3,804	646
Debt Service				
Principal and Interest	13,000	13,000	22,742	(9,742)
Contingency	7,030	7,030	0	7,030
Total Expenditures	150,450	154,475	155,196	(721)
Net Change in Fund Balance	0	(4,025)	(2,612)	1,413
<u>FUND BALANCE</u> - Beginning of Year	85,253	85,253	85,253	0
<u>FUND BALANCE</u> - End of Year	\$ 85,253	\$ 81,228	\$ 82,641	\$ 1,413

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

August 29, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Library Board
Ewart Public Library
Ewart, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ewart Public Library, Ewart, Michigan for the year ended June 30, 2008, and have issued our report thereon dated August 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 27, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ewart Public Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. The donation of 43 shares of Chevron Corporation received by the Library in March 2006 has been recognized in the financial statements during the current period resulting in a prior period income adjustment of \$2,325.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Evart Public Library for the year ended June 30, 2008, we noted the following list of items which we feel deserve comment:

GASBS No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools

According to GASBS No. 31, nearly all investments held by general purpose governments are required to be reported at fair value in their basic financial statements. Investment income, consisting of interest and dividends, realized gains and losses on the sale of investments, and changes in the fair value of investments, should be reported in both fund and government-wide financial statements. The use of the modified accrual basis of accounting in governmental funds does not affect this requirement.

During the year, the three stocks owned by the Library (Automatic Data Processing, Inc., Brokerage Services Group, and Chevron Corporation) were adjusted to their fair market value at June 30, 2008, resulting in investment income of \$3,320.

Cancelled Checks

The Library no longer receives cancelled checks or check images back from the bank. According to the State of Michigan Department of History, Arts and Libraries' Records Retention and Disposal Schedule, Deposit Slips and Cancelled Checks must be retained or available to the governmental unit for a minimum of seven years after audit. The Library should contact your bank to be sure your cancelled checks are available to you or arrange to receive cancelled checks or check images.

Budgeting

The budget document should include all items required by PA 621, including estimated beginning and ending fund balance and actual prior year revenues and expenditures. The 2007-2008 budget was amended February 18, 2008, and July 21, 2008. Any budget amendments need to be made before the end of that fiscal year. Final expenditures were over budget by \$721. Per the Michigan Department of Treasury Uniform Budget Manual:

Recommended Budget

The recommended budget for the general fund must include:

- Actual expenditures for the most recently completed fiscal year;
- Estimated expenditures for the current fiscal year (to be arrived at by using actual expenditures to date and estimating expenditures to the end of the fiscal year);
- An estimate of the expenditures in the next fiscal year;
- Actual revenue for the most recently completed fiscal year;
- Estimated revenue for the current fiscal year (to be arrived at by using actual revenue to date and estimating revenue to the end of the fiscal year);
- An estimate of the revenue in the next fiscal year;
- Beginning and ending fund balance for each year;
- An estimate of the amounts needed for deficiency, contingent, or emergency purposes;
- Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

Amending the Budget--When necessary, the budget must be amended. The amendment must be approved by the legislative body prior to the expenditure being made. This is not only a requirement of the Budget Act but also a requirement of sound budgeting theory. The purpose of a budget is not only to approve expenditures but also to control expenditures.

Please note that the Budget Act requires budget amendments *before* any expenditures exceed the budget. There is no authority to amend the budget after year end.

The Budget Act also requires an adopted budget prior to the beginning of a fiscal year. There is no provision to allow for a “continuation budget” or any other alternative to a full budget.

Gates Foundation Grant

The Library received a grant during the year which provided them with six new Dell Optiplex 745 Model computers. The computers were received in a non-cash transaction and were never recorded in the Library’s books. The value of the computers at \$6,000 was recorded during the audit.

Journal Entries

Several adjusting journal entries were required to adjust the hand ledger trial balance to full GAAP basis financial statements. Ten entries were directly related to adjusting balance sheet items for year ended accruals. Three entries were to adjust the value of stock to fair market value and record prior year donation of Chevron Corp. stock. Another ten entries were to reclassify various revenues and expenditures to specific financial statement line items and correct various ledger sheet errors. The use of a computer general ledger system would help eliminate addition errors and make it easier to maintain a balance sheet.

This information is intended solely for the use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

August 29, 2008

To the Library Board
Ewart Public Library
Ewart, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ewart Public Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Ewart Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Library make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.